

Message Text

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ACTION NEA-10

INFO OCT-01 EUR-12 ISO-00 FEA-01 ERDA-05 AID-05 CEA-01
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R 030332Z MAY 77
FM AMEMBASSY MUSCAT
TO SECSTATE WASHDC 3208
INFO AMEMBASSY ABU DHABI
AMEMBASSY DOHA
AMCONSUL DHAHRAN
AMEMBASSY JIDDA
AMEMBASSY KUWAIT
AMEMBASSY MANAMA
AMEMBASSY TEHRAN
AMEMBASSY LONDON

C O N F I D E N T I A L MUSCAT 0706

E.O. 11652: GDS
TAGS: ENRG MU
SUBJECT: REVISED CONCESSION TERMS FOR SHELL

REF: MUSCAT A07

1. THE LATEST ARRANGEMENTS FOR THE PRIVATE SHAREHOLDERS' OPERATION OF PETROLEUM DEVELOPMENT (OMAN) INDICATE THE OMANGOV'S NEED FOR SHELL TO CONTINUE AS A PART OWNER RATHER THAN SHIFTING TO A MANAGEMENT CONTRACT. UNDER AN AGREEMENT SIGNED IN APRIL 1977, SHELL WILL RECEIVE A FLAT RATE OF \$.23 PER BARREL. IN ADDITION, SHELL WILL BE PERMITTED TO USE ACCELERATED DEPRECIATION ON ITS SHARE OF PD(O)'S CAPITAL EQUIPMENT AS A MEANS OF GETTING A QUICKER RATE OF RETURN. SHELL IN TURN IS COMMITTED TO MAINTAINING ITS 34 PERCENT SHARE OF PD(O)'S PRODUCING PROPERTIES AND WILL PAY ITS
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SHARE OF FUTURE CAPITAL AND OPERATING EXPENDITURES. SHELL MANAGERS ARE PLEASED BY THE NEW AGREEMENT, WHICH LESSENS THE EFFECT OF THE 80 PERCENT TAX RATE ON EQUITY CRUDE.

2. THE OMANGOV IS PARTICULARLY ANXIOUS TO KEEP SHELL AS A PART OWNER OF PD(O) IN ORDER TO MAINTAIN SHELL'S ROLE IN DEVELOPING DHOFAR OIL. RECENT PD(O) EXPLORATORY WELLS IN

THE SOUTH HAVE STRUCK A SUCCESSION OF DRY HOLES, AND DHOFAR OIL IS MARGINALLY ECONOMIC BY ANY STANDARDS. SHELL WOULD LIKE TO AVOID COMMITTING ITS OWN FUNDS TO DHOFAR; SHELL'S STAFF HAS EMPHASIZED THE ENORMOUS TECHNICAL DIFFICULTIES IN WORKING THE FRAGMENTED STRATA AND PUMPING HEAVY OIL OUT OF INADEQUATE RESERVOIRS. TOP SHELL MANAGEMENT, HOWEVER, SEEMS TO HAVE DECIDED TO ACCEDE TO THE GOVERNMENT'S WISHES AND CONTRIBUTE THEIR SHARE OF THE DHOFAR CAPITAL COSTS (ALTHOUGH THE DECISION ISN'T YET FINAL), ON THE GROUNDS THAT THE OMANGOV'S GOODWILL TOWARD SHELL WOULD BE BADLY DAMAGED BY THE COMPANY'S REFUSAL TO PARTICIPATE IN DHOFAR. WHILE SHELL MANAGERS SEE AN INEVITABLE DECLINE FROM PRESENT LEVELS AND BELIEVE THAT OMAN WILL BE LUCKY TO STABILIZE PRODUCTION AT 3000,000 B/D IN THE NEXT DECADE, THEY DO NOT WANT TO JEOPARDIZE THEIR CONTINUED ACCESS TO OMANI CRUDE.

3. DESPITE THE OMANGOV'S EAGERNESS TO KEEP SHELL AS A PARTNER, SHELL MANAGERS HAVE LESS FREEDOM OF ACTION THAN WAS APPARENT A FEW YEARS AGO. THE GOVERNMENT, NOT SHELL, IS PLAYING THE DOMINANT ROLE IN DETERMINING PRICING AND PRODUCTION STRATEGIES. SHELL MANAGERS HAVE BECOME NOTABLY CAUTIOUS ABOUT FURNISHING INFORMATION TO OUTSIDERS, INCLUDING THE AMERICAN EMBASSY, AND HAVE REQUESTED US TO GET EVEN THE MOST INNOCUOUS DATA FROM THE PETROLEUM MINISTRY.

4. SHELL MANAGERS SUSPECT THAT AMERICAN OIL COMPANIES ARE MAKING UNREALISTIC PROMISES TO THE OMANGOV AS A MEANS OF GETTING FAVORABLE TREATMENT AT SHELL'S EXPENSE. SHELL WAS PARTICULARLY INCENSED AT QUINTANA MANAGERS WHO ALLEGEDLY CONFIDENTIAL

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PROMISED TO DOUBLE OMAN'S OIL PRODUCTION IN THE NEXT DECADE BY DEVELOPING THE SUNAINA CONCESSION (WHICH HAS MODERATE PROSPECTS AT BEST). SHELL IS ALSO WARY OF AMCIT TETRA TECH ADVISERS TO THE PETROLEUM MINISTRY WHO HAVE DONE THEIR BEST TO GET AMERICAN COMPANIES INVOLVED IN OMAN. GULF, WHICH HAS A 40 PERCENT SHARE IN THE SUNAINA CONCESSION AND IS QUITE INTERESTED IN PARTICIPATING IN OMAN COPPER DEVELOPMENT AS WELL, IS SEEN AS A GENUINE RIVAL. NONETHELESS, SHELL IS TOO DEEPLY INVOLVED IN ALL PHASES OF THE OMAN PETROLEUM SCENE TO BE DISLODGED EASILY BY EVEN THE LARGEST OUTSIDE FIRMS.
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